FISCAL NOTE

Bill #: SB0259 **Title:** Statewide health insurance for K-12 schools

Primary Sponsor: Glaser, B **Status:** As Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Expenditures:			
Other - Proprietary	$330,000	$160,214,894	$173,939,894
Revenue:			
Other - Proprietary	$0	$185,214,894	$173,939,894
Net Impact on General Fund Balance:	$0	$0	$0

☒ Significant Local Gov. Impact

☐ Included in the Executive Budget

☐ Dedicated Revenue Form Attached

☒ Technical Concerns

☒ Significant Long-Term Impacts

☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Commerce – Board of Investments

1. SB 259 establishes a program under which the state may provide school district employees with access to uniform health insurance and other related group benefits. The program would be administered by the School District Employee Health Benefits Council (the "Council"), which is administratively attached to the Department of Administration.
2. The Board of Investments is authorized to provide a loan of up to $25 million to the Council for implementing the school district employee health benefits plan and to establish initial reserves for the plan. The loan would be made on July 1, 2003 and the term of the loan would be 2 years with semi-annual payments.
3. Because this loan will not qualify as a loan under the INTERCAP program under which tax exempt bonds are sold to fund loans, the Board would issue taxable bonds specifically for this loan.
4. A debt service reserve fund, in the amount of 10% of the loan amount would be established requiring the issuance of $27.5 million in taxable bonds.
5. Debt service coverage of 1.25% would be required. Loan repayments are based on an estimated interest rate of 5.0%. The annual payment would be $13,290,894.
6. The loan would be repaid from health benefits plan premiums.

Department of Administration

7. As an agency allocated to the Department of Administration for administrative purposes, the agency created to administer the school district employee health benefit plan (here-in-after referred to as the SDHBP) will be considered a component unit of the State of Montana and all funds flowing through this agency will be considered state funds subject to the State Treasury Rules. The SDHBP will be headed by a Council that oversees and directs the operations of the program, and hires and manages its own staff. The SDHBP will utilize the SABHRS financial module to record its financial activity and annual financial reports will be incorporated into the State's CAFR. The cost for this is included in assumption 10.
8. In December 2002, eBenX Strategic Health Care Consulting, a Seattle based company specializing in health insurance consulting, conducted a study and prepared actuarial projections for the proposed Montana statewide K12 health program, which are presented in a report with this same name. Many of the assumptions used in preparation of this fiscal note (for example: plan participation levels, premium revenues, and administrative and claim costs) were derived from this report.
9. Unlike the study of eBenX, SB 259 provides one "basic" level of benefit. It is assumed that the basic benefit plan considered in the eBenX study will provide the basic plan as defined in SB 259.
10. The study of eBenX included only currently insured employees and retirees of districts. Unlike the study of eBenX, SB 259 implies that districts will be required to enroll all eligible employees of districts and certain retirees for insurance. It is unknown if the mix of employees and retirees considered in SB 259 will significantly affect the actuarial projections contained in the eBenX report. For the purposes of this fiscal note, it is assumed:
    a. The eBenX actuarial projections will apply to this broader group of people;
    b. The number of employees/retirees covered by the plan will be 25,000;
    c. The number of covered people by the plan will be 75,000
11. The Council will determine which functions will be performed by employees hired by SDHBP and which functions will be contracted out to private vendors. For purposes of this fiscal note it is assumed that SDHBP will employ an executive director, a benefits officer, an administrative aide, and an accountant, to coordinate and administer daily activities and information flow, and provide accountability between the Board, the private contract providers, and the Department of Administration. The SDHBP staff will provide basic clerical duties, accounting and budgeting, contract and RFP preparation, and legal services. These staff members are non-classified state employees, paid through the State's Central Payroll program, and are members of the State's Health Benefits program. Salaries for these staff are equivalent to the market salary level of similar classified positions within the State Employee Benefits Bureau (Executive Director~$60,819; Benefits Officer~$41,577; Administrative Aide~$23,999; Accountant~$37,816. Total salary expense, with benefits is $211,000.
12. Internal operating costs, other than personal services, rent, and certain consulting and fixed costs that would not apply to SDHBP, would be proportionately similar to the internal operating costs of the State's Employee Benefit Bureau. Estimated internal operating costs have been calculated as $189,000 in fiscal years 2004 and 2005, which includes audit costs.
13. Independently from the State Employee Benefits Bureau, SDHBP will contract with private companies for: the development of the health benefit plan; marketing and enrollment in this plan; actuarial and consulting services; managed care and claims administration services; record-keeping; premium collections and other services necessary for the provision of plan benefits which consist of hospitalization, health, medical, surgical, vision, dental, disability, and other related group insurance benefits, including flexible spending account benefits, members, and their dependents, which will participate in the plan. Any payroll costs associated with benefits processing are considered to be born by the individual school districts participating in the health benefit plan, and are not a part of this fiscal note.

14. SDHBP will lease 800 sq. ft. of non-DOA office space at $10/sq. ft./yr for an annual rent cost of $8,000. The lease would commence on May 1, 2003 and lease rates would not increase through FY 2005.
15. Health benefits to plan participants, and premium deductions from employees' payroll, will begin on July 1, 2003.
16. All start-up activities will begin on May 1, 2003, immediately after passage and approval. The employees of SDHBP will be hired and reporting to duty on this date. Operating expenses will be 2/12 of the operating expenses in assumptions 11, 12, and 14 will be incurred in FY 2003. Operating costs for start-up activities in the last two months of FY 2003 are assumed to be $12,000, or $3,000 per staff member, for workstation set-up. In addition, $250,000 for communication, publications, travel, contract services expenses, etc. related to plan design and development and pre-enrollment education that would need to occur before the implementation date of July 1, 2003. See technical note 1.
17. Contracts with providers of health care consultation, actuary analysis, claims administration, managed care contracts, training/education/enrollment, flexible spending account administration etc. totals $7.5 million per year. The costs for administrations will be allocated by premium per member per month as follows: $23 for basic health, $3 for dental, and $1 for vision.
18. The eBenX study assumed that the K-12 health plan would have its first year of operations in FY 2005. The study projected claims expense per member per month in FY 2005 would be $427 for the basic plan. The total claims expense would be $427 times 12 months times 25,000 members or $128.100 million. Claims costs in FY 2004 are assumed to be 12% less than claims in FY 2005, or $114.375 million. This corresponds with the current trends in health care costs, which the State Employee Benefit Plan is experiencing.
19. The study projected dental claims expense per member per month in FY 2005 would be $52 for the basic plan. The total claims expense would be $52 times 12 months times 85% of 25,000 members or $13.260 million. Claims costs in FY 2004 are assumed to be the same as FY 2005.
20. The study projected vision claims expense per member per month in FY 2005 would be $52 for the basic plan. The total claims expense would be $13 times 12 months times 82% of 25,000 members or $3.198 million. Claims costs in FY 2004 are assumed to be the same as FY 2005.
21. The flexible spending plan adopted by the SDHBP will be contracted out to a private provider. The participating employees will pay the cost associated with administering this program. The annual cost of this administration of the FSA is $180,000 per year.
22. Claims in the Flexible Spending Account (FSA) plans are estimated to be twice the State's FSA plans (approximately half the number of employees are in the State's plan) currently experience, or $8.0 million/year.
23. Investment of the portion of the loan that remains invested will earn interest from the Board of Investments Short Term Investment Pool (STIP). STIP rates will be 3.29% in FY 2004 and 4.57% in FY 2005. Assume that the average balances are $20 million in each year of the biennium; interest revenue will be $658,000 in FY 2004 and $914,000 in FY 2005.
24. The remaining portion of the loan needing to be paid off will be $13,290,894 – $658,000 or $12,632,894 in FY 2004 and $13,290,894 – $914,000 or $12,376,894 in FY 2005.
25. If the lag in claims compared to collection of premiums is not sufficient to extinguish the debt incurred for start-up costs and initial reserves ($25 million), then premiums will need to be increased in the first two years in order to cover remaining principle and interest. The maximum cost of this additional premium would be $42/member/month in FY 2004 and $41/member/month in FY 2005 debt service premium that must be collected.

Office of Public Instruction

26. SB 259 creates a statewide health insurance plan for school district employees. Coverage under the plan will be available for school districts in FY 2004.
27. SB 259 has no impact on the Office of Public Instruction or the distribution of state support for schools.

FISCAL IMPACT:

	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
FTE	4.00	4.00	4.00
Expenditures:			
Personal Services	$35,000	$211,000	$211,000
Operating Expenses	283,000	7,880,000	7,880,000
Equipment	12,000	0	0
Debt Service	0	13,290,894	13,290,894
Claims	0	138,833,000	152,558,000
TOTAL	$330,000	$160,214,894	$173,939,894
Funding of Expenditures:			
Proprietary (06)	$330,000	$160,214,894	$173,939,894
Revenues:			
Proprietary – premium (06)	$0	$159,556,894	$173,025,894
Proprietary – interest (06)	0	658,000	914,000
Proprietary – loan proceeds (06)	0	25,000,000	0
TOTAL	$0	$185,214,894	$173,939,894
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):			
Proprietary (06)	($330,000)	$25,000,000	$0

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

It is estimated that public schools spend in excess of $75 million annually for health insurance coverage for employees. Employees also make significant expenditures toward premiums and out-of-pocket medical costs. If this plan can reduce costs by a small percentage, school districts and their employees could save on health care expenditures.

The benefits of the statewide pool will vary from district to district depending on the current health care experience of the district. The statewide pool may cost districts with favorable experience more than their health insurance rates.

If districts do not currently provide health insurance to all employees of the district that the Council deems to be eligible, the increase in the number of employees eligible for health insurance may constitute an unfunded mandate to local government.

LONG-RANGE IMPACTS:
Premiums costs will not be as high relative to claims expense once the debt is paid off in FY 2005.

Claims costs in the health field have seen significant increases over the past several years. Historically the State Health Benefit Plan was experiencing growth trends in medical claim volumes up to 8% per year. In 2002, the state plan experienced closer to a 12% growth trend. Premium rates, plan benefits and plan options for the SDHBP will need to be evaluated and adjusted annually to keep pace with the growth trends, primarily in medical and prescription drug costs. The fiscal impact of a potential growth in claims costs and premium rates has not been estimated in this fiscal note.

TECHNICAL NOTES:
1. Although the assumptions show anticipated costs if the bill were to pass and the Department of Administration were able to do all that is required by July 1, 2003. However, it may not be possible to implement the provisions of SB 259 by July 1, 2003.
2. The actual number and types of plan participants, the cost of claims and the benefit plan have not been studied by an actuary and could by significantly different than those presented in this fiscal note.
3. Although the Council must have the program up and running by July 1, 2003, the loan is not available until July 1, 2003. The Council would need to be operating prior to July 1 in order to facilitate the creation of the benefit plans, collection of premiums and communication with employees.
4. The Board of Investments' bond issuance authority under 17-5-1608, MCA must be increased commensurate with the loan amounts before bonds can be sold to fund the loans.
5. The bill does not state how or where the reserves will be invested.
6. SB 259 uses the term "eligible employee," but does not define the term. It is not clear how eligibility is established.